3rd May 2017

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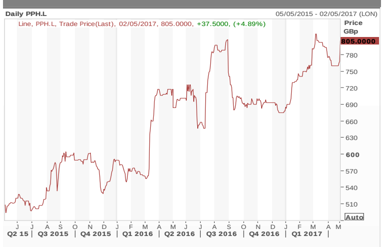
Travel & Leisure



Source: Eikon Thomas Reuters

Market data

EPIC/TKR	PPH
Price (p)	805
12m High (p)	857
12m Low (p)	675
Shares (m)	42.2
Mkt Cap (£m)	340
EV (£m)	957
Free Float (%)	26%
Market	Main

Description

PPHE owns, co-owns, leases, franchises and manages a portfolio of 4* hotels with a portfolio projected to reach nearly 10,000 rooms in Europe, with a strong emphasis on Central London. Real net asset value per share is significantly higher than the share price.

Company information

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CFO	Chen Moravsky
Chairman	Eli Papouchado

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Next event

Aug-17	Interims

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PPHE Hotel Group

Positive 2016 Q1 Trading Statement

PPHE's Q1 trading statement indicates a much stronger than anticipated performance, with LFL revenues up 17%, in spite of Easter falling in Q2 2017 (Q1 2016). Partly, this reflects a depressed comparative, with Q1 2016 revenues flat in the aftermath of the traffic terrorist incidents in Brussels and Paris. We have left our 2017 forecasts unchanged but feel there is likely to be an upgrade of 3% or so in revenues when we reach the interim results. The shares trade at a significant discount to NAV as adjusted for the real value of the assets, and at a significant discount to peers on earnings-based measures, which is unwarranted.

- **Trading:** Q1 revenues were much better than we had forecast with LFL Revenues up 17% and reported revenues up 29%. Room rates were up 11% like for like and occupancy was up 5.6 points. This is a considerably stronger performance than in our forecasts.
- **Forecasts:** We have left numbers for 2017 unchanged for the moment, purely to be conservative, although we would expect to increase revenues by c.3% at the interims. This could be even better if these trends persist, but it would be optimistic to assume this at this early stage.
- **Valuation:** On almost any metric, the group's valuation remains at a significant discount to peers, and out of line with the past and forecast performance. The group has reported the latest property valuation, and the adjusted book value or NAV is now c.£17.50/share on our calculations.
- **Risks:** The main risks are new openings and the London hotel market, but both seem to be on a strong trend. Although the balance sheet is indebted, the company's average debt maturity is 9 years which gives a solid balance sheet. As a major property owner, we expect some level of gearing.
- **Investment summary:** PPHE has an outstanding track record especially in delivering significant growth in the real asset value. UK property stocks are currently trading at discounts to book, but the asset values here are growing much faster and the discount is unrealistic. The shares continue to look lower rated than peers, yet growing faster.

Financial summary and valuation

Year end Dec (£m)	2015	2016	2017E	2018E
Sales	169.3	272.5	301.6	316.5
EBITDA	80.1	94.1	102.7	108.3
Operating profit	61.0	68.8	74.7	78.8
Underlying PBT	29.8	31.7	36.7	40.7
EPS (p)	71.5	67.9	80.3	89.7
DPS (p)	20.0	121.0	22.0	24.0
Net (debt)/cash (€m)	-397.7	-590.2	-616.5	-575.8
Net debt/EBITDA (x)	5.0	6.3	6.0	5.3
P/E (x)	11.3	11.9	10.0	9.0
EV/Sales (x)	4.4	3.4	3.2	2.9
EV/EBITDA (x)	9.2	10.2	9.6	8.7
Dividend Yield (%)	2.5	15.0	2.7	3.0

Source: Hardman & Co Research

2016 Q1 Trading

Overview

Results for the period were significantly better than our expectations, and we expect to have to upgrade our numbers which we shall look to do post the interim results.

Highlights of the trading statement were:

- **LfL Revenue:** Excluding the new hotels which have been opened since Q1 16, but including the impact of fx benefits, revenues for the Group increased by 17% to £53.3m for the quarter.

Note that the Euro has appreciated vs sterling by 11.5% in Q1, and roughly speaking, the Dutch and German operations were half the UK operation's revenues in H1, so there is probably a c.3% benefit included in that comparison.

To further complicate the issue, Easter fell entirely in March last year and entirely in April this year. Hence, we would expect Q1 leisure travel to be weaker year on year, but business travel to be stronger. Yet PPHE management cited the strength of their studios in the South Bank hotels, which they attribute to strong demand from families and which they suspect may be a reflection of weaker sterling.

- **Reported revenue:** This increased by 28.9% to £57.7m, which reflects 1) a depressed comparative; 2) weaker sterling boosting the translation of the Dutch and German operations into pounds; 3) a depressed comparative; and 4) the opening of the new hotels, notably Park Plaza Nuremberg and London Waterloo, as well as the extra rooms in Riverbank.

Given that we are forecasting 11% revenue growth for the year, we are anticipating revising numbers upwards, but the Q1 is not a great basis for comparison. The Q1 delta is 44% of our forecast increase in sales, or put another way, the forecast as it stands implies on 7.2% increase for the rest of the year, which we think is too low. But Q1 is a very unusual quarter, and the effects of FX and the weak base will dissipate in coming quarters.

- **Occupancy:** on a like for like basis it increased by 5.6 pp to 71.6% (66.0%), reflecting the weak base. Reported occupancy fell from 72.4% last year to 71.1% because of the consolidation of the Croatian operations which are closed in Q1.
- **RevPAR:** this increased like for like by 20.7% to £79.5 (£65.9), while reported RevPAR increased by 7.8% to £79.6.

Our forecasts for 2017 now look light and we expect to revise upwards following the interim results. The shares are up 5% as we write, which is a reasonable reflection of the improving trend. We are not increasing forecasts at this stage because Q1 is a seasonally quiet period and with a very difficult comparative and we feel it's early in the year to start pushing our forecasts too far. But we are confident that our numbers now look conservative and even on these, the valuation looks attractive.

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